



January 22, 2019

Ms. Ann E. Misback  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street & Constitution Avenue, N.W.  
Washington, D.C. 20551

**Re: "Prudential Standards for Large Bank Holding Companies and Savings and Loan Holding Companies" (FRB Docket No. R-1627 and RIN 7100-AF20)**

Ladies and Gentlemen:

Regions Financial Corporation<sup>1</sup> ("Regions") submits the following comments to the Board of Governors of the Federal Reserve ("Board") in response to the Notice of Proposed Rulemaking ("Proposal") regarding "Prudential Standards for Large Bank Holding Companies and Savings and Loan Holding Companies" published in the Federal Register on November 29, 2018. Regions appreciates the opportunity to comment on the Proposal and respectfully offers the comments and recommendations outlined in this letter.

Regions supports the Board's objective of tailoring its capital, liquidity, and other rules, as prescribed by the Economic Growth Regulatory Relief and Consumer Protection Act ("EGRRCPA"), to "better reflect the risk profiles" of banks. Regions also supports the Board's stated goal of implementing the tailoring promptly. However, given the pending future proposals for additional revisions to regulation that the Board has indicated are forthcoming, we are left with several questions as to how the currently proposed framework will be implemented for Category IV firms, and the form in which "greater flexibility"<sup>2</sup> will be provided.

Primarily, we seek clarity on the stress testing and capital planning cycle for 2019. We are in the process of developing our annual Capital Plan, and the uncertainty around the Supervisory stress test and capital plan submission for Category IV firms is posing significant challenges to our capital management processes, which have the potential to disrupt our ability to meet business

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<sup>1</sup> Regions Financial Corporation (NYSE: RF), with \$126 billion in assets, is a member of the S&P 500 Index and is one of the nation's largest full-service providers of consumer and commercial banking, wealth management, and mortgage products and services. Regions serves customers across the South, Midwest and Texas, and through its subsidiary, Regions Bank, member FDIC and an Equal Housing Lender, operates approximately 1,500 banking offices and 1,900 ATMs. Additional information about Regions and its full line of products and services can be found at [www.regions.com](http://www.regions.com).

<sup>2</sup> Prudential Standards for Large Bank Holding Companies and Savings and Loan Holding Companies, 83 Fed. Reg. 61408 (proposed Nov. 29, 2018), at 61410 and 61421.

and customer needs. In addition to Board of Governor remarks regarding 2019 being an off-cycle year, public comments have been made that indicate the Board is considering whether it can move forward with any aspects of the Stress Capital Buffer proposal for 2019, such as assumptions related to balance sheet growth.<sup>3</sup> The assumptions related to the Stress Capital Buffer proposal are estimated to have a material impact to our stressed capital projections. Without confirmation that 2019 is an off-cycle year, exempting Regions from Comprehensive Capital Analysis and Review (“CCAR”), it will continue to be a challenge to manage capital and meet business objectives. We respectfully urge the Board to officially confirm 2019 as an off-cycle year for Category IV firms effective immediately, and provide details to what an off-cycle entails (e.g., how capital action assumptions may differ from the Supervisory stress test under CCAR, the format for submission of our capital plan in an off-cycle year, etc.).

The remainder of our questions and comments are focused around:

- The proposed asset thresholds for application of Enhanced Prudential Standards,
- The annual capital plan submission for off-cycle years and what flexibility will be provided to manage capital more dynamically,
- Implementation of biennial Supervisory stress testing and CCAR,
- Liquidity Coverage Ratio public disclosure requirements, and
- Implementation of the Stress Capital Buffer on a biennial cadence

These items are outlined in further detail within the remaining sections of this letter, and we look forward to working with the Board on these important matters.

## **Asset Thresholds**

The Proposal poses several questions surrounding the asset thresholds used for the various definitions, including the appropriateness of \$100 billion being the minimum asset threshold for Category IV banks.

EGRRCPA provided regulatory relief to non-systemic banks with assets under \$250 billion by raising the statutory threshold for application of Enhanced Prudential Standards (“EPS”) from \$50 billion to \$250 billion. Prior to issuing this Proposal, we believe the Board should have followed congressional intent in EGRRCPA and first made a determination about the future application of EPS for firms with less than \$250 billion in assets.

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<sup>3</sup> Randal K. Quarles, Vice Chairman for Supervision of the Federal Reserve, *A New Chapter in Stress Testing*, (Washington, D.C., Nov. 9, 2018) available at <https://www.federalreserve.gov/newsevents/speech/quarles20181109a.htm>.

EGRRCPA specifically raises the threshold for EPS to \$250 billion; however, it does grant the Board the authority, pursuant to the Administrative Procedure Act, to issue a rule or order requiring the application of any prudential standard to a bank or holding company (or group of firms) upon a determination that such application is necessary “to prevent or mitigate risks to the financial stability of the United States ... or to promote the safety and soundness of the bank holding company or bank holding companies.”<sup>4</sup> The law gives the Board eighteen (18) months to make this determination as well as to implement the new “periodic stress test” regime for Bank Holding Companies (“BHCs”) between \$100-250 billion. The practical effect of moving ahead with the current rulemaking is to create a de facto tailoring regime for all BHCs larger than \$100 billion instead of following the legislative directive to consider exempting all firms smaller than \$250 billion from EPS. The Board has not determined that BHCs below \$250 billion present a systemic risk.

Category IV banks have less risky business profiles as evidenced by the risk-based indicators analyzed by the Office of Financial Research (“OFR”).<sup>5</sup> Further, initial analysis on the proposed alternative scoping approach for assessing the risk profile and systemic footprint of banking organizations under the GSIB identification methodology (scoring methodology), determined that Category IV bank scores were substantially below the lower bound of the proposed ranges for both methods leveraged in the scoring methodology.

Thus, we urge the Board to raise the asset threshold to \$250 billion and exclude Category IV firms from the application of EPS. A Category IV firm should not be subject to EPS unless the Board applies the aforementioned risk-based indicators to an individual firm and determines that the firm poses significant risk to the stability of the United States financial system. We believe this approach is appropriate given the less risky business profiles of Category IV firms and is consistent with the congressional intent of EGRRCPA.

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<sup>4</sup> Economic Growth, Regulatory Relief, and Consumer Protection Act, S. 2155, 115th Cong. § 401(a)(1)(C) (2018). To make an EPS determination under this provision, the statute delineates factors the FRB must consider, which include: the bank holding company’s or bank holding companies’ capital structure, riskiness, complexity, financial activities (including financial activities of subsidiaries), size, and any other risk-related factors that the Board of Governors deems appropriate.” (EGRRCPA § 401(a)(1)(C)(ii)) Following the process outlined in EGRRCPA is important for several reasons. Besides providing the Board with the basis to act should a subject firm or firms present a risk, it also requires the Board to follow certain steps, consider particular criteria, and make findings. These sound procedural requirements are valuable because they promote greater risk awareness and overall risk reduction in the financial system. Considering the significance of the regulatory implications associated with being subject to EPS, we believe the most appropriate process for making these determinations requires firm-specific determinations using the GSIB surcharge methodology.

<sup>5</sup> Office of Financial Research, U.S. Department of Treasury, *Viewpoint: Size Alone is Not Sufficient to Identify Systemically Important Banks* 17-04 (Oct. 26, 2017), at [https://www.financialresearch.gov/viewpoint-papers/files/OFRvp\\_17-04\\_Systemically-Important-Banks.pdf](https://www.financialresearch.gov/viewpoint-papers/files/OFRvp_17-04_Systemically-Important-Banks.pdf).

## **Annual Capital Plan**

After reviewing the proposal, we seek additional clarity around several requirements related to the annual capital plan submission during the off-cycle years. We acknowledge this clarity may be provided as part of the future capital plan proposal the Board has indicated it intends to separately propose;<sup>6</sup> however, this information is instrumental to our internal resource planning efforts. The following are items we hope will be clarified in the near term through additional communication from the Board.

First, we support the Board's stated objective of providing Category IV firms with "greater flexibility"<sup>7</sup> in developing and executing their annual capital plans, and respectfully recommend the submission process be as streamlined as possible to support a more dynamic capital management process for our firms that evolves with the banks risk profile and economic environment. We seek clarity on whether our annual capital plan will remain subject to Federal Reserve Board approval or become part of the ongoing Supervisory process conducted by our local Federal Reserve exam team. As part of a more dynamic capital management process we also desire the ability to more easily make moderate intra-year adjustments to our Capital Plan that are consistent with changing conditions. Regions believes a more flexible and dynamic capital management process can be achieved by removing Category IV firms from Enhanced Prudential Standards (EPS) and providing Federal Reserve Board oversight as part of the ongoing Supervisory process conducted by the local Federal Reserve exam teams. Removal from EPS is appropriate for firms of our size and risk profile, which are less complex in nature and do not pose systemic risk to the United States financial system.

Additionally, further clarity is being sought as to what information will be required for submission with the annual capital plan. For example, will Category IV firms be required to conduct stress tests based on the Supervisory scenarios? What, if any, information will be required for submission on the FR Y-14A or will an alternative submission be required? Will a Capital Plan Narrative and supporting documentation submission be required, and if so, what information will comprise this submission?

## **Supervisory Stress Testing and CCAR**

The proposal would modify the frequency of Supervisory stress testing and CCAR for Category IV firms to every other year and eliminates the requirement for those firms to conduct and publicly report the results of the company-run stress tests. We are supportive of this move to a

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<sup>6</sup> *Supra* note 2, at 61421.

<sup>7</sup> *Supra* note 2.

two-year stress test cycle and elimination of the public disclosure; however, the move to a biennial basis has raised certain implementation questions.

First, will the required biennial submission require a similar level of detail to what is submitted today? In accordance with current regulation, in addition to our own internally designed scenarios, we run all Supervisory scenarios through our internal forecasting models and processes, template all scenarios on the FR Y-14A, and develop a full Capital Plan Narrative with supporting documentation for annual submission to the Board. Given the cost burden of maintaining certain processes and resources that would only be executed every two years as currently proposed, we respectfully recommend that these years for Category IV firms provide greater flexibility and are closely aligned with the off-cycle years as much as possible (see comments above). Without greater flexibility in years requiring Supervisory stress testing and CCAR, achieving dynamic capital management will be difficult.

Second, the proposal would eliminate the mandatory mid-cycle stress test requirement, but would not become effective until the 2020 cycle.<sup>8</sup> We agree with the Federal Reserve Board that the submission of a mid-cycle stress test provides little value and respectfully encourage the Board to provide this relief immediately rather than waiting until the 2020 cycle. At Regions, our internal stress testing and capital planning processes are embedded in our normal business as usual processes, and we will continue to leverage these processes for business planning and decision making. However, removing the mandatory requirement for a formal mid-cycle submission would provide significant relief to internal resources which can be utilized to further support strategic business and lending activities, and we are fully supportive of this change.

Lastly, as discussed in the “Annual Capital Plan” section above, questions remain as to whether the capital plans submitted in these years will be subject to an approval process by the Board? If so, additional clarity as to the timing and scope of the approval process would be greatly appreciated.

### **Liquidity Coverage Ratio (“LCR”)**

Regions is supportive of the LCR changes in the proposal, including the removal of compliance with Regulation WW requirements for Category IV firms, but would respectfully recommend that the Board remove the requirements for public disclosure that is effective for end of quarter December 31, 2018. Regulation WW requires Category IV banks to disclose their LCR in the first quarter of 2019. Since Category IV banks are no longer required to comply with the LCR requirements, we believe it no longer seems reasonable to require its disclosure, and ask that the Board remove this requirement effective immediately.

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<sup>8</sup> *Supra* note 2, at 61417.

### **Stress Capital Buffer (SCB") Implementation**

Additional clarification is needed regarding how the Board will implement the stress capital buffer given the new two-year cycle. The proposal suggests the stress buffer requirements would be "calculated in a manner that aligns with the proposed two-year supervisory stress testing cycle," and that the "buffer requirements would be updated annually to reflect planned distributions, but only every two years to reflect stress loss projections."<sup>9</sup> While the suggested process sounds reasonable, if the stress component is only set every two years, the process for a firm to request an update or recalculation of the stress buffer by the Board must be as flexible as possible. Two years is a long time to go without refreshing the stress component of the buffer as firms could experience significant movements in the buffer during this period, that are driven by changes in risk profile, balance sheet composition, stage of the economic cycle, or severity of the stress scenario. Given these concerns, we believe Category IV firms should be allowed the option to request a refresh in the SCB calculation from the Board as necessary, and the path for a firm to request and receive a refresh should be as streamlined as possible.

### **Conclusion**

Regions respectfully recommends the Board consider our concerns and proposed suggestions throughout this letter. We greatly appreciate the opportunity to comment on this Proposal and to work with the Board on these and other important issues. Should you have any questions regarding these comments please do not hesitate to contact me directly.

Sincerely,

A handwritten signature in blue ink, appearing to read "D. J. Turner, Jr.", with a stylized flourish at the end.

David J. Turner, Jr.  
Chief Financial Officer  
Regions Financial Corporation

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<sup>9</sup> *Supra* note 2, at 61421.